

BEFORE THE SECURITIES COMMISSIONER

STATE OF COLORADO

Order No. 14-L-06

CONSENT ORDER

IN THE MATTER OF IN THE MATTER OF UBS FINANCIAL SERVICES, INC.,

Respondent.

THIS MATTER is before Fred J. Joseph, Securities Commissioner for the State of Colorado ("Securities Commissioner"), on the Stipulation for Consent Order between the staff of the Colorado Division of Securities ("Division") and Respondent UBS Financial Services, Inc., ("UBS"). After reviewing the Stipulation, grounds therein, and further being advised in the premises, the Securities Commissioner makes the following Findings of Fact and Conclusions of Law as follows:

I.

FINDINGS OF FACTS

1. UBS admits the jurisdiction of the Colorado Securities Commissioner in this matter.

Background on Client Service Associates

2. The CSAs function as sales assistants and typically provide administrative and sales support to one or more of UBS's Financial Advisors ("FAs"). There are different titles within the CSA position, including Client Service Associate, Registered Client Associate, and Senior Registered Client Service Associate.

3. The responsibilities of CSAs specifically include, among other things:

- a. Extending invitations to UBS-sponsored events;
- b. Providing published quotations to clients, if asked;
- c. Inquiring whether a current or prospective client wishes to discuss investments with a registered representative of UBS; and
- d. Entering an order, provided the order was accepted by an appropriately registered individual in those instances where the CSA is not registered in the state in which the client is located.

4. In addition to the responsibilities described above, and of particular significance to this Order, some CSAs are permitted to accept orders from clients. As discussed below, UBS's written policies and procedures require that any CSAs accepting client orders first obtain the necessary licenses and comply with self-regulatory organization and state registering requirements.

5. UBS issued a revised policy on registration requirements on March 28, 2007, which stated, inter alia, that managers are responsible for ensuring that all employees under their supervision are appropriately registered and licensed to perform the functions of their position.

6. During the period of 2004 to 2010, UBS employed, on average, approximately 2,277 CSAs per year.

Registration Required

7. Pursuant to §11-51-401, C.R.S., a person shall not transact business in this state as a sales representative unless licensed or exempt from licensing.

8. Pursuant to the general prohibition under §11-51-401, C.R.S., and the definition of a sales representative, as contained in §11-51-201(14), C.R.S., a person cannot accept unsolicited orders in Colorado without being licensed. A broker-dealer, under §11-51-402, C.R.S., is prohibited from employing a sales representative unless the sales representative is licensed or exempt from licensing.

9. Pursuant to §11-51-410, C.R.S., the Securities Commissioner may suspend, revoke, censure, limit or impose conditions on the securities activities that a licensed person may conduct in this state who has willfully violated or failed to comply with any provision of the Act.

UBS Requires Registration of Client Service Associates

10. UBS requires CSAs to become properly registered, licensed, and appointed with the necessary self-regulatory organizations, state regulators, and business entities before taking solicited or unsolicited transaction orders from clients in securities or other financial products, receiving transaction-related compensation, or otherwise engaging in the offer or sale of securities or other financial products.

11. UBS's policies and procedures state that CSAs engaging in securities activities must register in, at a minimum, the state from which they conduct business (i.e. home state).

12. Additionally, UBS also required CSAs to register in states in which a CSA anticipated:

- a. Maintaining an additional place of business;
- b. Prospecting clients;
- c. Soliciting new accounts;
- d. Servicing existing accounts; or

- e. Effecting any securities transactions and/or receiving compensation as a result of such transactions.

Regulatory Investigation and Findings

13. In March 2010, state securities regulators initiated an investigation into the practices of UBS in connection with its CSA registrations.

14. The multi-state investigation focused on systemic issues with UBS's CSA registrations and related supervisory structure instead of attempting to identify each incidence of unregistered activity. Specifically, with respect to the order entry process, the investigation found:

- a. After accepting a client order, UBS CSAs accessed UBS's automated Consolidated Order Entry System ("COE") to enter the order;
- b. When entering an order through the COE, CSAs were asked by the system "Did another person receive this order?" If the question was answered "no," the order was processed. If the question was answered "yes," a free text field appeared for the CSA to enter the name or employee code of the person who accepted the order;
- c. In some instances, when this question was answered "yes," CSAs did not include a name or code of the employee who accepted the order in the free text field. In other instances, the free text field did not contain accurate identifying information about the employee who accepted the trade;
- d. Further, while UBS maintained a system to verify that the FA of record for a particular account was registered in the state where the client resided, UBS did not maintain a system to verify the registration status of the employee accepting a client order when that employee was not the FA for the account.

15. The multi-state investigation found that on certain occasions some UBS CSAs, while Series 7 registered and registered in one or more other states, accepted unsolicited orders to buy or sell securities from clients residing in Colorado at times when the CSAs were not appropriately licensed in Colorado.

UBS's Remedial Measure and Cooperation

16. In November 2010, after the initial inquiry by state securities regulators, UBS enhanced the COE System to automatically validate the registration of employees during the order entry process.

17. Specifically with respect to branch support staff (i.e. CSAs), employees are now required to indicate the person who directly accepted the order from a client by selecting "self" or "other" within the electronic ticket on the COE.

18. If a CSA selects "self", the COE validates whether the CSA who accepted the order is properly registered in the state where the client resides.

19. If a CSA selects “other,” the CSA must provide identifying information of the person who accepted the order. The COE system subsequently validates whether the identified person who accepted the order is properly registered in the state where the client resides.

20. If the identified person is not properly registered in the client’s state of residence, the order is routed to branch management who must ensure that a properly registered person accepts or confirms the order before execution.

21. UBS provided timely responses and substantial cooperation in connection with this regulatory investigation.

II.

CONCLUSIONS OF LAW

1. The Securities Commissioner has jurisdiction over this matter pursuant to §11-51-701, C.R.S.

2. UBS’s failure to establish an adequate system to monitor the licensing status of persons accepting client orders constitutes a violation of §11-51-410(1)(i), C.R.S.

3. UBS’s maintenance of order tickets which do not accurately identify the person who accepted client orders constitutes a violation of Colorado Division of Securities Rule 51-4.5 Books and Records Requirements for Licensed Broker-Dealers.

4. UBS’s acceptance of orders for purchases and sales of securities from clients residing in Colorado through CSAs not licensed in Colorado constitute a violation of § 11-51-401(2), C.R.S.

5. Pursuant to § 11-51-606(1.5)(b)(II), C.R.S., UBS’s acceptance of orders for purchases and sales of securities in Colorado through sales representatives not licensed in Colorado constitute bases to order UBS to cease and desist engaging in the sale of securities in Colorado through unlicensed sales representatives.

6. Pursuant to §11-51-410(1)(i), C.R.S., the violations described above constitute bases for the assessment of an administrative penalty against UBS.

7. The Securities Commissioner finds the following relief appropriate and in the public interest.

III.

ORDER

On the basis of the Findings of Facts, Conclusions of Law, and UBS’s consent to the entry of this Order,

IT IS HEREBY ORDERED:

1. This Order concludes the investigation by the Division and Securities Commissioner and any other action that the Securities Commissioner could commence against UBS and its officers, directors and present or former employees under applicable Colorado law on behalf of Colorado as it relates to unlicensed activity in Colorado by UBS's CSAs and UBS's supervision of CSA registrations during the period from January 1, 2004 through December 31, 2010.

2. This Order is entered into solely for the purpose of resolving the referenced multi-state investigation, and is not intended to be used for any other purpose. For any person or entity not a party to the Order, this Order does not limit or create any private rights or remedies against UBS including, limit or create liability of UBS, or limit or create defenses of UBS, to any claims.

3. UBS is hereby censured.

4. UBS is hereby ordered to cease and desist from engaging in the acceptance of orders for purchases and sales of securities in Colorado through persons not licensed with the Securities Commissioner as agents of UBS.

5. UBS is hereby ordered to pay the sum of Sixty-six Thousand Three Hundred Fourteen Dollars and Twenty-Three Cents (\$66,314.23) to the Division within twenty days of the date of this Order.

6. This order is not intended by the Securities Commissioner to subject any Covered Person to any disqualifications under the laws of the United States, any state, the District of Columbia, Puerto Rico, or the U.S. Virgin Islands, or under the rules or regulations of any securities or commodities regulator or self-regulatory organization, including, without limitation, any disqualification from relying upon the state or federal registration exemptions or safe harbor provisions. "Covered Person," means UBS or any of its affiliates and their current or former officers or former officers, directors, employees, or other persons that could otherwise be disqualified as a result of the Orders (as defined below).

7. This Order and the order of any other State in any proceeding related to UBS's agreement to resolve the above referenced multi-state investigation (collectively, the "Orders") shall not disqualify any Covered Person from any business that they otherwise are qualified, licensed or permitted to perform under applicable securities laws or regulations of Colorado and any disqualifications from relying upon this state's registration exemptions or safe harbor provisions that arise from the Orders are hereby waived.

8. This Order shall be binding upon UBS and its successors and assigns as well as to successors and assigns of relevant affiliates with respect to all conduct subject to the provisions above and all future obligations, responsibilities, undertakings, commitments, limitations, restrictions, events, and conditions.

Dated this 18 day of Dec., 2013.



FRED J. JOSEPH
Securities Commissioner

